Homeowner
Protection Office

Service *Plan*

2003 - 2006

As of December 31, 2002

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Service *Plan* *As of December 31, 2002*

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Mission

- Increase consumer protection for homeowners and homebuyers
- Improve the quality of residential construction in British Columbia

Inputs

Financial resources, trained staff, facilities

	Research and Education	Financial Assistance
Programs		
Strategies *and* Activities	• Building science research projects • Technology transfer to construction industry • Consumer information disseminated • Provincial Advisory Council on Homeowner Protection	• No-interest repair loan applications received • PST Relief Grant applications received for completed building envelope repairs • Advice on financial assistance provided to homeowners
Outputs	• Building science studies completed and underway • Research results disseminated at industry symposium • Publications and seminars for consumers and industry available • Provincial Advisory Council advising the HPO • Repair process seminars attended • On-site sessions for strata owners given • People served by 1-800 line • Visits to Web site	• Homeowner loans approved • Co-operative housing loans approved • PST Relief Grants approved
Outcomes Immediate	• Consumer information and assistance available • Research projects set framework for construction improvements • Increased awareness of construction and consumer protection issues	• Homeowners keep homes who otherwise might have lost them • Availability of financial assistance facilitates more rapid approval of repairs • Only viable, long-term repair solutions selected
Intermediate *(Goals)*	• Consumers able to make more informed decisions • Results of building science studies communicated to industry – construction quality increases • Reduced occurrence of construction defects	• Increased value in repaired homes • Fewer repair loan applications anticipated over time • Loans repaid

Ultimate *(Strategic objectives)*

- Homeowners and homebuyers better protected
- Improvement in the quality of residential construction
- Consumer confidence in residential construction industry restored

Executive *Summary*

Now in its fifth year, the Homeowner Protection Office (HPO) continues to work with industry and consumers to increase homeowner protection and to improve the quality of residential construction in British Columbia. This Service Plan, which is prepared in accordance with the *Budget Transparency and Accountability Act*, outlines how we will work towards meeting this vision in the 2003 to 2006 period.

During 2002 the HPO completed its Core Services Review with government making the decision to continue the HPO as a Crown corporation with a new Board of Directors representative of industry and consumer stakeholders. During its first year the new Board will develop recommendations with respect to the future of the HPO. This decision is a strong endorsement of the on-going need for residential builder licensing and home warranty insurance, research and education to benefit industry and consumers, and financial assistance for owners of leaky homes. The decision also signals that residential construction is a quickly evolving industry and further enhancements to the system may be possible over time.

2002 has proven to be a very positive year for the residential construction industry. For the second year in a row, new home starts increased by about 25% over the prior year. Sales of new homes have been strong all year. So strong in fact that in September, all but one new condominium in the downtown Vancouver peninsula that were completed and ready for occupancy had been sold. For British Columbia as a whole, a similar story unfolded with the inventory of new completed homes dropping by more than 50%. These positive results are primarily the result of low interest rates and the release of pent up demand. However, residential builder licensing through the HPO, combined with mandatory, third-party warranty insurance has played its part in boosting consumer confidence.

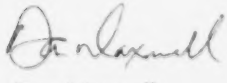
In fall 2002 the HPO undertook a survey of new home buyers and prospective buyers to determine their level of awareness and satisfaction with warranty insurance protection mandated by the *Homeowner Protection Act* (the *Act*). The vast majority of homeowners (93%) who purchased new homes built under the Act, reported that they were satisfied with the quality of their home's construction. In addition, 83 per cent of those surveyed said they were satisfied with the protection provided by the mandatory 2-5-10 year warranty insurance — the strongest construction defect warranty in Canada. Nearly one quarter (24%) of buyers of new homes said they would not have gone ahead with their purchase without the mandatory warranty insurance.

Going forward, the HPO will continue to work in partnership with industry, educational institutions and other government organizations to conduct practical research and carry out educational initiatives related to residential construction in British Columbia. With the completion of several key pieces of research this year, for example, research on water penetration resistance of windows, increased emphasis will be placed on educational initiatives to transfer the knowledge gained from this research to professionals, the trades and others involved in residential construction and design.

We have also made significant progress in assisting owners repair their leaky homes. The demand for the Homeowner's Reconstruction Loan Program peaked in 2001, indicating that the halfway mark has been reached in the number of homeowners who will apply for no-interest repair loans over the long-term. These programs are critical in helping homeowners avoid foreclosures due to the cost of building envelope repairs. There is good news in the resale market where owners of repaired homes are able to sell their homes and recoup much of their repair costs. In 2002 more than half of owners with repaired homes had recovered 90% or more of the cost of repairs by a rise in the value of their homes.

The HPO has been working with consumers and the industry since its inception in 1998 to bring about changes in the residential construction sector. The positive outcomes of this work is evident. I am confident that this three-year Service Plan will guide the HPO in further improving the quality of residential construction and increasing homeowner protection in British Columbia.

Sincerely,



Dan Maxwell
Acting Chief Executive Officer

Strategic *Foundation*

Strategic Foundation	The Homeowner Protection Office's vision, mission and values form the basis of our operational planning, implementation and maintenance of our program areas.
Our Vision	A responsive Crown corporation leading an improvement in the quality of residential construction and increased homeowner protection in British Columbia.
Our Mission	To restore confidence in British Columbia's residential construction industry by: • Administering the residential builder licensing system • Establishing the framework for and monitoring the mandatory, third-party home warranty insurance system • Maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, and • Providing financial assistance to owners of leaky homes.
Our Values	We are guided by our commitment to: • Integrity • Fairness • Responsiveness • Accountability, and • Teamwork

Corporate *Overview*

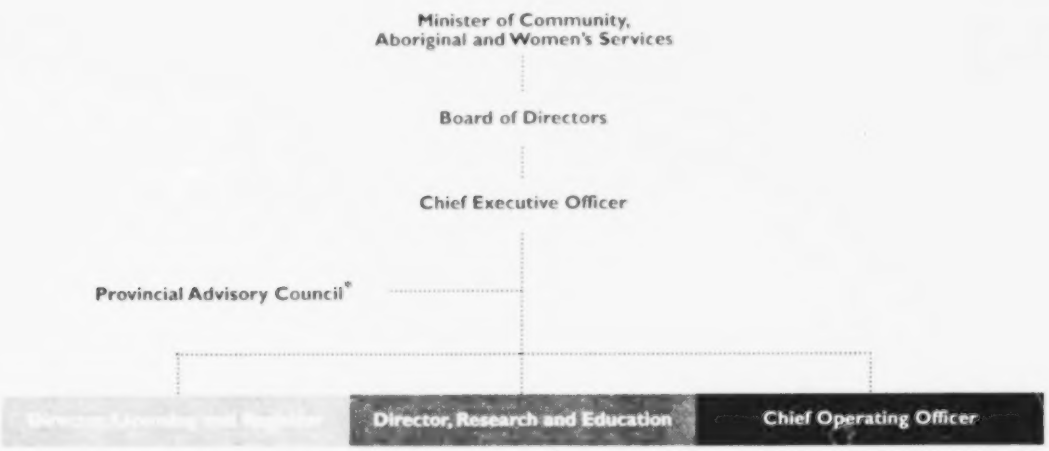
The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in response to the need to introduce basic consumer protection legislation and regulatory improvements within the residential construction sector. The HPO was established under the *Homeowner Protection Act (Act)* which was passed on July 28, 1998 for the main purposes of strengthening consumer protection for new home buyers and improving the quality of residential construction in the province. The Homeowner Protection Office officially opened on October 1, 1998. The HPO is responsible for:

- residential builder and building envelope renovator licensing province-wide
- establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- a research and education function designed to benefit the residential construction industry and consumers
- administering the no-interest repair loan and PST Relief Grant programs for owners of leaky homes

Key clients of the HPO are homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also worksclosely with warranty insurance providers, architects, engineers, property managers, the legal community, research organizations, building inspectors, governments including local governments and the Canada Mortgage and Housing Corporation (CMHC), real estate professionals and financial institutions.

The HPO is self-funded primarily from builder license fees. The research and education function is also funded through these builder licensing fees. The Government of Canada through CMHC provides a contribution to the Homeowner's Reconstruction Loan Program equal to fifty percent of the program's expenditures net of interest revenue. Over the first ten years, the Homeowner's Reconstruction Loan Program expenditures are expected to total about $109 million. The total contribution from the Government of Canada will not exceed $27.7 million. The PST Relief Grant program is administered by the HPO on behalf of the provincial government on a cost recovery basis.

Organization *Chart*



Key Responsibilities *of HPO Officers*

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

Chief Operating Officer

- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
- financial management of HPO including annual financial statements
- Board administration

* The Provincial Advisory Council on Homeowner Protection provides policy advice to the CEO relating to the *Homeowner Protection Act* and operation of the HPO.

Planning *Context*

The Homeowner Protection Office (HPO) has identified key external factors which may impact its operations and vision to increase consumer protection for homebuyers and bring about an improvement in the quality of residential construction.

Outcome of the Core Services Review: The HPO, like all Crown corporations, agencies, boards and commissions participated in the provincial core services review and addressed three key questions for each mandate area:

- Is there a compelling public interest to continue?
- Is it affordable?
- Must the provincial government deliver the program?

As a result of the Core Services Review, government made the decision to continue the HPO as a Crown corporation with a new Board of Directors representative of industry and consumer stakeholders. This decision was made following consultation with consumer and industry representatives and a review of other possible delivery models including industry self-regulation. Major considerations taken into account included maintaining consumer confidence and stability in the relatively healthy construction industry environment.

An additional outcome of the Core Services Review is that the new Board, within the first year of being appointed, will develop recommendations with respect to the future of the HPO. These recommendations may or may not have an impact on the HPO's future operations or delivery mechanism.

Owner-Builder Exemption Abuse: Regulations for new residential construction exempt owner-builders from licensing and mandatory home warranty insurance requirements. Although the regulations stipulate that only individuals building a detached dwelling for their own personal use are eligible for the exemption once in any 18-month period, some land owners and unscrupulous builders are abusing the system to avoid the licensing and warranty requirements put in place to protect consumers. Abuse of the owner-builder exemption results in:

- inadequate consumer protection (false owner-builder exemptions mean that new homes are constructed without meeting the requirements for licensing and warranty insurance)
- unfair competition for licensed builders who comply with legislation
- smaller underwriting pools for home warranty insurance providers, which can result in higher premiums for coverage, and
- less financial resources available for the administration of the consumer protection regulations because licensing fees are not being collected.

The HPO's compliance efforts and revisions to the owner-builder exemption application process continue to reduce the occurrences of abuse. These efforts have successfully decreased the number of owner-builder detached dwelling building permits from 40% to under 30%. Increased housing market activity will place additional pressure on HPO's compliance staff to effectively monitor and investigate potential owner-builder exemption abuse.

Stronger Housing Market and Increased Housing Starts: The HPO is self-funded primarily through licensing fees. This service plan anticipates the continuation of a strengthening housing market into 2003 and 2004, which will result in increased housing starts in B.C. and more licensed builders. This in turn will mean that more fees will be collected to monitor and ensure compliance with the *Homeowner Protection Act* and regulations for both new home construction and building envelope renovations.

Last year marked a significant improvement in the housing market, which rebounded from a 40-year low in housing starts. The outlook for the next two years is for further gains. Favourable interest rates continue to entice many homebuyers into the market resulting in higher sales of both new and existing homes. Increases in housing starts are good for the industry and serves to increase the strong financial footing of the office. For residential builders, the downside of the surging housing market is the growing skilled labour shortage as well as a squeeze in the supply of some building supplies and components which may cause delays in the construction of new and repaired homes.

In the unlikely event that the housing market declines over the planning period, the resulting lower level of revenue would restrict the performance of other program areas of the HPO such as building science research and consumer information programs.

HPO Licensing Approvals Process: Increased building activity over the planning period means increased pressure on the HPO to process larger volumes of builder license applications and owner-builder exemptions within acceptable timeframes. The challenge for the HPO is to implement new technologies and database enhancements to ensure continued responsive service to clients.

Demand for No-interest Repair Loans: As of December 31, 2002, the office had approved no-interest repair loans totaling $269 million in financial assistance. Over the past year the demand for repair loans declined compared to the high demand over the previous two years. Nevertheless the demand for no-interest loans is expected to remain steady over the planning period.

Through the Homeowner's Reconstruction Loan Program, the HPO provides subsidized interest loans, no-interest loans and deferred payment loans to owners of homes with premature building envelope failure. Over the first ten years of the Homeowner Reconstruction Loan Program, it will cost the HPO $109 million to provide this financial relief. The operating funds for these payments come from a $750 fee charged to builders for each multi-unit home constructed in the same geographic areas where leaky condos exist and contributions from the federal government.

The Homeowner's Reconstruction Loan Program generated deficits in the first years requiring bridge financing from the provincial government to meet the demands of the program. In 2002, however, the program began to generate a surplus as a result of two factors: higher revenue from the $750 fee reflecting increased housing starts; and more homeowners being able to sell their repaired unit in a stronger real estate market and repaying their loan. This surplus enables the HPO to begin to repay the bridge financing to the provincial government. A downturn in the housing market would mean a possible return to a deficit position with respect to the Homeowner's Reconstruction Loan program.

Demand for Building Envelope Renovations: Over the past several years there has been a high number of building envelope renovations required over a relatively short period of time, in some cases resulting in delays in repairs to affected buildings. Over the planning period, however, it is expected that a more reasonable volume of repairs will be undertaken resulting in a better balance between the amount of repairs required and availability of licensed building envelope renovators backed by home warranty insurance, and building envelope consultants. One possible risk associated with this scenario is the emerging leaky school issue and the extent to which the repairs to these buildings will place greater demand on the supply of professionals, renovators, contractors and materials involved in the repair process. For homeowners, significant delays can result in higher repair costs and place further demand on the HPO's no-interest repair loan program.

Changes in the Insurance Industry: The insurance industry is currently in a period of re-structuring. Major precipitators of change continue to be the downturn in stock market profitability, and a significant increase in traditional natural disaster claims and other unforeseen events such as the 2001 terrorist attack in New York. Providers of re-insurance, which is used by insurance companies to spread risk, continue to deal with substantial losses by raising their fees and seeking to limit the scope of insurance coverage, either by excluding specific perils or by abandoning or selling off certain insurance lines altogether. Other factors influencing the insurance industry in B.C. include:

- less availability of liability insurance for professional architects and engineers, and their policies being limited to not include water related problems;
- municipal reaction to the decision of the Supreme Court of B.C. regarding Riverwest Estates in Delta, and the Municipal Insurance Association's demand for limited municipal involvement in building design and inspections;
- the provincial Civil Liability Review, which is examining topics such as limitation laws and joint and several liability; and
- a growing concern in the industry over the issue of mould.

The changing landscape of the insurance industry is likely to place upward pressure on the cost of home warranty insurance in the future, affecting both residential builders and consumers of new homes. As well, a potential reduction in the availability of liability insurance for professionals may result in fewer multi-unit housing starts and therefore reduced revenue for the HPO.

Performance *Measures*

Ten performance measures have been developed to track progress towards meeting key goals and objectives as set out in this service plan. These measures, as described below, are results-oriented, describing the HPO's performance from the perspective of both industry and consumer stakeholders. Measures include satisfaction ratings as well as indicators of effectiveness and responsiveness in key program areas. Where possible, measures will be benchmarked against the performance of organizations in other jurisdictions, and/or against past performance. As these measures were introduced in 2002/2003, year-over-year comparisons of performance will be presented in the 2004/2005 service plan. As well, work will continue over the next year to further define methodologies, review benchmark data and refine targets.

Goal/ Objective	Performance Measure	TARGETS 2003/04	2004/05	2005/06
Licensing and Warranties				
• Homeowners are protected by warranty insurance on their homes	• Homeowner satisfaction rating of their warranty insurance	80% Actual 02/03: 83%	85%	85%
• Improvement in the quality of residential construction	• Homes built under the *Homeowner Protection Act* with warranty insurance claims[1]	<10% Actual 02/03: 5%	<10%	<10%
• Creation of a more "level playing field" for residential builders	• Investigations resulting in voluntary compliance under the *Homeowner Protection Act*	72% Actual to 02/03: 89%	75%	80%
• Responsive licensing system for residential builders and building envelope renovators	• Timeliness of licensing decisions on complete applications[2]	5 business days or less Actual to Dec/02: 3 days	5 business days or less	5 business days or less
• Increased awareness of consumer protection issues	• Homebuyer awareness of licensing and warranty insurance requirements	75% awareness licensing 50% awareness warranty insurance Actual 02/03: 73% awareness licensing 45% awareness warranty insurance	80% awareness licensing 55% awareness warranty insurance	85% awareness licensing 65% awareness warranty insurance
Research and Education				
• Research and education projects are planned and managed in partnership with the residential construction industry	• HPO facilitates and expands research and education partnerships	At least twice the amount invested by the HPO is invested in these research projects by other partners Actual to Dec/02: HPO's investment represents 20% of total project funding	Same	Same
• Industry and consumers have access to research results and improved technology	• Research results disseminated through participating in research symposium and educational sessions	During 2 year cycle 02/03 to 03/04, HPO participates in 1 major symposium or publication and 12 educational sessions Actual to Dec/02: 4 industry educational sessions profiled HPO funded research; participation on planning committee for the National Building Science & Technology Conference Feb/03	During 2 year cycle 04/05 to 05/06, HPO participates in 1 major symposium or publication and 12 educational sessions	During 2 year cycle 04/05 to 05/06, HPO participates in 1 major symposium or publication and 12 educational sessions
• Building science research projects will help set framework for improvements in residential construction	HPO participation on building code committees and in development of best practice guides and training courses	Participation on federal and provincial processes to update the current building code Actual to Dec/02: HPO representation on National Building Code Standing Committees (2) on Houses and Environment Separation, Provincial Technical Discussion Forum on Building Code issues, and CSA Strategic Steering Committee on Building Products & Systems	Same	Same

[1] This performance measure will be benchmarked against warranty insurance claims data from other jurisdictions.
[2] This performance measure will be benchmarked against other jurisdictions that register or license residential builders.

Financial Assistance				
Goal/ Objective	Performance Measure	TARGETS 2003/04	2004/05	2005/06
• Provide financial assistance to help home owners keep their home and avoid foreclosures due to the cost of building envelope repairs	• Homeowners with loans don't loose their homes[1]	4% or less default rate on reconstruction loans Actual on Dec/02: 0.85%	4% or less default rate on reconstruction loans	4% or less default rate on reconstruction loans
• Value of homes will increase accordingly once homes with building envelope failure are repaired	• Assessed values of repaired homes increase	50% of repaired homes have recovered 90% or more of the cost of repairs Actual to Dec/02: 59%	50% of repaired homes have recovered 90% or more of the cost of repairs	55% of repaired homes have recovered 90% or more of the cost of repairs

PERFORMANCE MEASURE DESCRIPTIONS

Homeowner satisfaction – This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Baseline data has been obtained from a fall 2002 survey of homeowners whose homes were constructed under the *Homeowner Protection Act*. Statistically the results have a 95% confidence level and are considered accurate to within 5 percentage points.

Homes are of good quality – This measure is an important indicator of the quality of residential construction in British Columbia in terms of the number of claims made by homeowners for repairs under home warranty insurance. Baseline data on claims from warranty insurance providers will not be available until 2003/2004. In the interim, results from the homeowner satisfaction survey (see above) will be used as a proxy measure, specifically the percentage of homeowners who have experienced a problem with their home's workmanship, materials or structure, and who have involved their warranty insurance company in the repair.

Residential builder compliance – This measure focuses on the effectiveness of compliance activity in reducing abuse of the owner-builder exemption from licensing and home warranty insurance requirements. Investigations by compliance staff involve visits to construction sites as well as follow-up site visits, calls and enquiries. The emphasis of compliance activity is to convince unlicensed builders to become licensed and provide warranty insurance on the new home.

Timeliness of licensing decisions – This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders.

Homebuyer awareness – This measure tracks new homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Baseline data for this measure has been collected through a survey of prospective new homebuyers in the fall of 2002. Statistically the results have a 95% confidence level and are considered accurate to within 5 percentage points.

Facilitate and expand research & education partnerships – This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for active research and education projects.

Research results disseminated – Recognizing the critical role of ensuring that research results are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions.

Building standards and best practices – This measure looks at the effectiveness of the HPO in ensuring that the results of research projects are incorporated into standards, codes and best practices. The performance measure tracks HPO's participation on national and provincial code committees, and involvement in the development of best practice guides and training courses.

Homeowners don't lose their homes – This measure tracks the effectiveness of the Homeowner's Reconstruction Loan program in helping to ensure that homeowners don't lose their homes as a result of building envelope repair costs. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C.

Assessed values of repaired homes increase – This measure tracks the improvement in assessed value of homes following the completion of building envelope repairs. The measure is calculated as the percentage of homes that have recovered 90% or more of the cost of repairs by a rise in the value of their homes. It should be noted that annual reporting for this measure includes a 6 month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

[1] This measure will be benchmarked against the default rate for residential mortgages at major banks and financial institutions in British Columbia.

LICENSING

STRATEGIES AND ACTIVITIES

The *Homeowner Protection Act* provides for licensing and mandatory, third-party home warranty insurance requirements for new home construction and building envelope renovations. The regulations for new home construction require all residential builders to be licensed by the HPO and provide home warranty insurance prior to obtaining a building permit. In geographic areas where building permits are not required, licensing and arrangements for home warranty insurance must occur prior to the commencement of construction. Similar regulations also require contractors who act as building envelope renovators to be licensed by the HPO and provide home warranty insurance on building envelope renovations.

The HPO has continued to monitor the licensing requirements to ensure consumers are protected. As part of these efforts, the HPO participates in a number of public events and industry sector initiatives to educate homeowners, homebuyers, residential builders and renovators about licensing and home warranty insurance requirements. On-going assistance about these consumer protection regulations is also available through HPO's toll-free information line and Web site.

The HPO has been monitoring the licensing requirements since these regulations were brought into force to ensure consumers are protected. It is anticipated that education and training will become an added requirement for licensed residential builders and building envelope renovators. This will involve working closely with the industry to develop these requirements and the most effective methods to disseminate new technology.

OUTPUTS

As of December 31, 2002, there were 3,081 residential builders, 51 building envelope renovators plus a further 33 dual builder/building envelope renovators licensed by the HPO. A daily-updated public registry of licensees is available on the HPO Web site. In addition to the licensing and registration staff located at the HPO, compliance officers work fulltime in the field. These officers conduct site visits throughout the province to ensure compliance to the consumer protection regulations. Non-compliance cases, which most often involve false owner-builder exemptions from licensing and warranty, are investigated and penalties are issued when applicable. Offences under the *Homeowner Protection Act* carry penalties upon conviction of up to $25,000, up to one year of imprisonment or both for individuals. Penalties for corporations can be up to $100,000.

Regulations for the mediation of residential construction disputes allow any party to an action to compel the other parties to a mediation session prior to the scheduled trial date.

A list of new homes built by licensed residential builders that have the 2-5-10 year home warranty insurance and homes built by owner-builders is planned for the Web site in the future.

OUTCOMES

Immediate

The licensing and warranty provisions of the *Homeowner Protection Act* work in tandem to ensure that builders meet minimum standards and, if a construction defect occurs, the homeowner is protected by home warranty insurance. The licensing and warranty requirements raise the standard and level of professionalism in the industry and increase builder accountability.

Non-compliance cases are continually investigated by the HPO. In most cases, unlicensed builders in violation of the *Homeowner Protection Act* are convinced to become licensed and provide home warranty insurance to homebuyers. In other cases, charges have been laid and licenses have been restricted, suspended or cancelled by the HPO registrar.

The public registry of licensed residential builders and building envelope renovators which is available on the HPO Web site enables the public to check the status of any licensee. Data collected from the license applications assists the HPO to develop profiles of licensed builders and identify what training might be required in the future as a condition of licensing.

The mediation regulations allow one party of a residential construction dispute to compel the other parties to participate in a mediation session. Mediation often provides a more cost-effective and rapid method to settle residential construction disputes when compared with the court system. A high ipercentage of leaky condo disputes are being mediated.

Intermediate *(Goals)*

As consumer confidence returns to the residential building industry and the number of homes constructed increases, more residential builders and developers will return to the industry and become licensed.

Since residential builders and building envelope renovators must now meet minimum standards, construction quality will increase and consumer confidence in the homes built and renovated by licensed builders will increase. Homes suffering from premature building envelope failures will also be repaired and the value in those homes will increase accordingly.

Ultimate *(Strategic objectives)*

Licensing and warranty requirements for both new home construction and building envelope renovations bring about increased consumer protection and improved residential construction both in the short-term and long-term.

As homes suffering from premature building envelope failures are repaired and new homes are built to higher standards, consumer confidence will be restored in the residential construction industry.

WARRANTY INSURANCE

STRATEGIES AND ACTIVITIES

The *Homeowner Protection Act* and regulations provide for licensing and mandatory, third-party home warranty insurance for new home construction and building envelope renovations. The HPO is responsible for setting the standards for and monitoring the home warranty insurance system.

New homes constructed with building permits applied for on or after July 1, 1999 and building envelope renovations with building permits applied for after September 30, 2000 are subject to the licensing and mandatory home warranty insurance regulations. In geographic areas where building permits are not required, home warranty insurance must be in place prior to the commencement of construction.

Owner-builders, which are defined as persons who build detached dwelling units for their own personal use not more than once in any 18-month period, are exempt from the licensing and home warranty insurance requirements. However, owner-builders are deemed to agree to a 10-year statutory protection which makes them personally liable to subsequent purchasers for defects in the home. About 30% of the building permits issued in the province for detached dwelling units since July 1999 involve owner-builder exemptions. Significant numbers of these building permits continue to involve false or misleading owner-builder declarations. The majority of the HPO's compliance efforts are spent monitoring this exemption to ensure consumer protection.

The HPO meets regularly with stakeholders to provide information and discuss emerging warranty issues. To raise awareness about the warranty insurance system, information is disseminated to the industry, homeowners and the general public through the toll-free information line, the Web site, print materials and at industry and consumer related speaking engagements.

OUTPUTS

Building permits for over 48,200 new homes[4] have been applied for under the *Homeowner Protection Act* and Regulations as of December 31, 2002. New homes constructed by licensed residential builders are now covered by the strongest construction defect warranty in Canada which includes 2 years on labour and materials, 5 years on the building envelope and 10 years on structure (2-5-10). In some instances, warranty insurance providers offer longer warranty insurance periods, e.g., 2-10-10. Homes with applicable building envelope renovations are covered by home warranty insurance which includes 2 years on labour and materials and, if 60% or more of any wall is replaced, a 5-year water penetration warranty is also provided.

Home warranty insurance can only be provided by insurance companies that are approved by the Financial Institutions Commission and that meet the requirements of the *Homeowner Protection Act*. Five insurance companies are currently approved to provide home warranty insurance in the province.

Although owner-builders are not required to provide home warranty insurance on the homes they build for themselves, they are subject to the statutory protection provisions of the *Homeowner Protection Act*. Non-compliance cases, which most often involve false, fraudulent or misleading owner-builder declarations, are investigated by the HPO to ensure consumer protection. Offences under the

[4] Includes preliminary total for 2002.

Homeowner Protection Act include penalties upon conviction of up to $25,000, imprisonment of up to one year or both for individuals. Corporations can receive penalties of up to $100,000.

British Columbia is currently in a home warranty transition period. Some new homes on the market are built by licensed residential builders and have the stronger mandatory 2-5-10 year home warranty insurance required by the *Homeowner Protection Act*. Other new homes built or initiated before the consumer protection regulations were implemented, have a variety of different warranties, or no warranties at all.

The *Notice of Home Warranty* regulations were brought into force to address this warranty transition period. As of August 1, 2000, vendors of new homes built with building permits applied for before the licensing and mandatory home warranty insurance regulations came into effect on July 1, 1999, must provide homebuyers with a *Notice of Home Warranty* before accepting an offer to purchase the home. The Notice indicates the type, extent and expiration dates of any existing home warranty.

A standard 2-5-10 year warranty logo has been trademarked by the HPO for use by licensed residential builders in their efforts to market homes that meet the requirements of the *Homeowner Protection Act*.

OUTCOMES

Immediate

As a result of the mandatory home warranty insurance required for both new home construction and building envelope renovations, consumers are now better protected.

Since the warranty insurance providers are ultimately responsible for repairing defects in the home, they have risk-management strategies that help ensure quality construction. This increased quality is ensured through strict underwriting practices which require the review and approval of the builders' experience, expertise, sub-trades used and design plans. On-site inspections for quality construction are also conducted by warranty insurance providers. Under this system, high-risk builders are unable to get home warranty insurance and, therefore, cannot meet the licensing requirements of the HPO.

The warranty insurance providers' obligation to provide a claims adjustment process and repair applicable defects in the home also ensures the selection of viable, long-term solutions for building envelope renovations and prevents homeowner-funded multiple repair attempts.

Warranty conditions such as standards of coverage, exclusions, and limits on coverage are now set by government. The regulations also require warranty insurance providers to repair construction defects within a reasonable period of time.

Intermediate *(Goals)*

As time progresses, a greater number of homes will be protected by home warranty insurance. Fewer construction defects and claims will occur since the quality of construction will be ensured by the warranty insurance providers which are financially responsible for repairs.

Claims activity will continue to be monitored by the HPO to ensure the third-party home warranty insurance system is effective and adequately protects the consumer. Over time, the extent of the owner-builders' obligation to subsequent purchasers under the statutory protection requirements will be determined through private court actions.

Resale values of homes might also be affected by the home warranty insurance requirements. If a portion of the home warranty insurance is still in place at the time of sale, the homebuyer can rely on the warranty insurance provider to repair applicable defects in the home.

The introduction of the Notice of Home Warranty regulations and the standard 2-5-10 year warranty logo will decrease homebuyer confusion.

Ultimate *(Strategic objectives)*

All new homebuyers will be protected by a warranty. Homes built by licensed residential builders will have the 2-5-10-year home warranty insurance. All owner-built homes will have the 10-year statutory protection which makes the owner-builder personally liable to subsequent purchasers for defects in the home.

The warranty insurance providers' financial obligation to repair defects and the resulting stringent underwriting practices will continue to bring about an improvement in the quality of residential construction.

The increased consumer protection combined with an improvement in the quality of construction will bring about a renewal of confidence in the residential construction industry.

Research and Education

The research and education component of this service plan covers three areas: consumer information, new and improved technologies, and education and training.

CONSUMER INFORMATION

STRATEGIES AND ACTIVITIES

The HPO is responsible for conducting research and education to benefit homeowners and the residential construction industry.

Specifically, the HPO develops information guides and bulletins to assist homebuyers make informed purchasing decisions, as well information for owners of leaky homes undertaking needed repairs. This information is further augmented through consumer newsletters and magazines in which the HPO contributes articles. As well, the HPO's Web site and toll-free information line provide a variety of information to homeowners and the residential construction industry. On-site strata meetings are also held to provide owners and property managers with information on financial assistance available to homeowners.

The HPO participates in consumer trade shows and industry seminars to further educate homebuyers, owners of leaky homes and members of the residential construction industry.

OUTPUTS

The HPO provides consumers with information publications including: *Buying a New Home: A Consumer Protection Guide*, *Options for Resolving Residential Construction Disputes*, and *Managing Major Repairs* which was created in partnership with the former Ministry of Municipal Affairs and the Canada Mortgage and Housing Corporation (CMHC).

The HPO develops and distributes a number of consumer bulletins on topics ranging from home warranties, licensing and warranty insurance regulations, home warranty disclosure, builder liens, managing building envelope renovations and hiring contractors, building envelope consultants and lawyers. HPO contributes articles for inclusion in consumer information journals and newsletters on a wide range of consumer protection issues in residential construction.

To provide information to strata owners on the no-interest repair loan program and the PST Relief Grant, the HPO participates in on-site strata owner meetings. The HPO participated in more than 88 meetings with strata owners in 2002. Interpreters accompany HPO staff to the strata owner meetings in cases where a high percentage of the owners in a building are not English speaking.

The HPO makes additional consumer information and assistance available through its Website and toll-free line. The Website was accessed by over 100,000 different users in 2002. The toll-free information line received 27,960 inquires in 2002. To assist non-English speaking consumers, interpretation services in any language are made available on the toll-free line.

A consumer survey was carried out in 2002 to assess awareness of the HPO's programs. The information obtained through the surveys will be used this year to ascertain areas where more information would be beneficial to consumers.

OUTCOMES

Immediate

The HPO's consumer information initiatives bring about increased awareness and understanding of construction and consumer protection issues. Homebuyers learn what resources are available and what information to collect to allow them to make more informed purchasing decisions. Owners of leaky homes are better able to manage the repair process and are aware of the financial assistance available.

Intermediate *(Goals)*

The HPO's on-going consumer information initiatives will continue to increase the awareness and understanding of consumer protection and construction issues. A greater number of owners of leaky homes will make use of the information available by the HPO to proceed through the building envelope renovation process.

Ultimate *(Strategic objectives)*

Consumer confidence will increase as more homeowners have better access to timely and up-to-date-information that will assist them to make more informed decisions.

NEW AND IMPROVED TECHNOLOGY

STRATEGIES AND ACTIVITIES

The HPO plans and manages its building science research and education projects in partnership with the residential construction industry. In keeping with this, the office is a member of the Building Envelope Research Consortium (BERC) and the B.C. Building Envelope Council (BCBEC), which are involved in research and related activities to improve residential construction.

As research projects are completed, the HPO produces publications that provide residential construction information to the industry. This information is also made available to industry professionals on HPO's Web site.

In addition, the HPO plans educational sessions and technology transfer seminars to ensure that research results are disseminated to key players of the residential construction industry.

The *Homeowner Protection Act* provided for the establishment of a Provincial Advisory Council on Homeowner Protection (PAC) which:

- provides advice to the CEO and the Board on the main program areas of the HPO
- identifies new and emerging issues in the residential construction industry and makes recommendations to the HPO, and
- advises on the research and education components of the HPO particularly as they relate to building science matters, Building Code, cost effective building techniques and consumer education.

PAC, formed in 1999, has representation from industry, labour, professionals, warranty insurance companies, local government and homeowner groups.

The HPO has established working relationships with various educational institutions, government and industry organizations to assist in building science research efforts and the possible delivery of future training programs for the industry.

OUTPUTS

The HPO's current and completed research projects include:

- monitoring the effectiveness of new and remediated wall assemblies
- a study on water penetration resistance of windows
- a study on high-rise building envelope performance
- a study on building envelope drying rates for various wall assemblies
- a study of sheathing membrane performance
- a study on establishing a building envelope test hut
- a bibliography of building envelope research
- research on seismic testing of rainscreen stucco systems
- a publication on land use planning and weather protected buildings

Other projects and publications are planned as research efforts progress. Results of the building science research efforts will also be available though the HPO Web site and toll-free information line.

The HPO is participating in planning the 9th Conference on Building Science and Technology to be held in February 2003. Key research studies funded by the HPO will be profiled at this major national conference. HPO funded research is also profiled at industry association events and seminars to inform and educate professionals in the building industry.

The 14-member PAC meets regularly and advises the HPO on its research and education mandate.

Following up on the Building Envelope Research Symposium held in October 2001, a similar one-day symposium is planned for 2003/04 to disseminate research findings to those who can use the knowledge in the field.

Research and education initiatives undertaken by the HPO are funded primarily by builder license fees. The office has committed about $500,000 to residential construction related research and education projects.

OUTCOMES

Immediate

The commencement of building science research projects sets the framework for an improvement in residential construction over the long-term. The Provincial Advisory Council ensures that stakeholders have input into the research projects selected by the HPO.

The HPO, in partnership with CMHC and the Canadian Home Builders' Association of B.C. (CHBA BC), has developed a course for the residential construction industry involving building envelope technology. By the end of 2002, over 100 participants will have completed all modules of the Building Envelope Solutions Theory & Practice course and obtained a certificate from the British Columbia Institute of Technology.

Results of several HPO funded research projects will be profiled at the 9th National Conference on Building Science and Technology to be held in February 2003.

Intermediate *(Goals)*

As the HPO's research programs progress, the findings will continue to be developed into education and training materials for the industry. Technology transfer will result in improved construction standards and practices, which will have a positive impact on both new home construction and building envelope renovations.

As more homes suffering from building envelope failures are repaired and the quality of construction increases, the HPO plans to contribute to building science research in areas other than building envelope performance.

Ultimate *(Strategic objectives)*

Building science research initiatives, when combined with education and training, will bring about an improvement in the quality of residential construction over the long-term. This consistent improvement will encourage increased consumer confidence.

EDUCATION AND TRAINING FOR INDUSTRY

STRATEGIES AND ACTIVITIES

Results of completed research projects are disseminated to the residential construction industry through workshops, seminars and publications. Collaborative efforts with the industry help facilitate the development and delivery of these training programs.

OUTPUTS

The HPO, in cooperation with the Canadian Home Builders' Association of B.C., provide licensed residential builders and building envelope renovators with information on the Building Envelope Solutions Theory and Practice (B.E.S.T. Practice) training course.

An education and training resource guide was added to the HPO website to provide a one-stop source of information on courses and training available in B.C. for those embarking on a new career in residential construction or seeking to enhance existing skills and knowledge.

Other information sessions and courses will be available as research progresses. Planned industry surveys will assist the HPO to assess educational/research needs, the usefulness of the training programs offered and provide necessary feedback for future programs.

The HPO also provides an on-line bibliography containing more than 170 reference materials concerning the design, construction, and maintenance of the building envelopes in coastal climate.

OUTCOMES

Immediate

Education and training over the short-term will increase awareness of construction quality issues. The industry will have the knowledge to implement new or improved technologies.

Intermediate *(Goals)*

Over time, a greater number of builders will have access to improved technology. New skills and improved construction practices will result in more effective building envelope repairs and new home construction.

Ultimate *(Strategic objectives)*

Training and education will bring about a long-term improvement in the quality of residential construction.

As construction quality increases and insurance claims for construction defects decrease, consumer confidence in the industry will be restored. It is anticipated that ongoing education and training courses for licensed residential builders and building envelope renovators will be required in future years. Improved construction practices will also decrease the number of home warranty insurance claims in the long-term.

Financial Assistance

STRATEGIES AND ACTIVITIES

The purpose of the Homeowner's Reconstruction Loan Program is to provide no-interest repair loans to owners of leaky homes whom otherwise might have lost their homes due to the cost of repairs. As of December 31, 2002, the HPO received 10,191 applications from homeowners and 40 applications from leaky co-operative housing.

The PST Relief Grant is administered by the HPO on behalf of the province. This tax-relief rebate is available to all owners of leaky homes that have completed building envelope repairs to their homes on or after July 28, 1998, the date the *Homeowner Protection Act* was passed.

The HPO has received PST Relief Grant applications from 344 buildings representing over 16,000 homes as of December, 2002. The number of applications received to date indicates that many homeowners have not completed, or perhaps even started, repairs to their homes. It is also an indication of future demand for both the no-interest loan program and consumer information initiatives.

The HPO provides information to owners of leaky homes through on-site meetings with strata owners. In 2002, 88 of these meetings were held. As well, information about these programs is available through HPO's toll-free line, Web site and publications.

OUTPUTS

As of December 31, 2002 , the HPO has approved a total of 8,223 no-interest homeowner loans and 33 loans to housing co-operatives totaling $269 million. These numbers are reflective of the current loan application approval rate of 81 per cent.

In addition, the HPO approved $6.5 million through the PST Relief Grant program for homeowners with completed building envelope repairs

OUTCOMES

Immediate

The Homeowner's Reconstruction Loan Program enables homeowners to avoid foreclosure situations due to the cost of repairs. The average amount for those loans issued to homeowners as of December, 2002 was $25,100. The availability of financial assistance to those homeowners most in need has facilitated more rapid approvals of special assessments required for condominium repairs. Access to repair loans has, in some instances, also resulted in more rapid repairs which reduces the risk of further damage over time and subsequent increased repair costs.

Requirements for a completed building envelope renovation schedule signed by a licensed building envelope renovator and a qualified engineer or architect prior to the approval of a loan ensures that only viable, long-term repair solutions are carried out. This eliminates the possibility of inadequate repairs and significantly decreases the chances for multiple repair attempts.

The HPO only approves no-interest repair loans on buildings which are repaired by licensed building envelope renovators who provide home warranty insurance. This requirement is further assurance that only long-term repair solutions are implemented.

Intermediate *(Goals)*

It is estimated that 65,000 units are affected by the leaky condo crisis. The HPO has been involved with close to 900 buildings (condominiums and co-operative housing) representing about 50,000 homes with an estimated total repair bill of $1.5 billion. As a greater number of homes are repaired using effective repair strategies, the demand for the no-interest repair loan program will decrease over time. Once homes are repaired, their values will increase accordingly. As time progresses, the loans will be repaid by owners.

Ultimate *(Strategic objectives)*

Over time, all residential buildings suffering from premature building envelope failures will be repaired. The market value of these homes will increase accordingly. Most homeowners will regain financial stability.

Alignment with *Government's Strategic Plan*

The provincial government's strategic plan focuses on three goals: 1) a strong and vibrant economy, 2) a supportive social infrastructure, and, 3) safe, healthy communities and a sustainable environment. The goals of the HPO's service plan align with the first goal of supporting a strong and vibrant economy in British Columbia, specifically through fostering growth and stability in the residential construction sector by:

- providing basic consumer protections to homeowners and homebuyers
- improving the quality of residential construction, and
- ultimately restoring consumer confidence in the residential construction industry.

The residential construction sector is a major economic driver in the province. The contribution of this sector to the province's gross domestic product and to total employment is significant and comparable to other major industries in the province such as logging and utilities. Consumer confidence in the residential construction sector leads to greater demand for new homes and, thus, creates new, higher-paying jobs and employment opportunities for British Columbians.

Financial Plan *2002-2006*

The forecast of revenue and expenditures of the HPO for 2002/2003 through to 2005/2006 is shown on Table 1. The two main drivers of the financial plan are as follows:

The HPO must be self-sustaining from its own revenues. As such, key assumptions for the financial plan, specifically the forecast of builder license fees, new construction and building envelope renovation activity as shown on Table 2, determine the funding available to operate the HPO's programs with the exception of the Homeowner's Reconstruction Loan Program. Over the forecast period it is projected that the demand for new housing will remain strong, which provides incentives for builders to become licensed by the HPO or to renew their existing licenses. This in turn translates into higher revenues and greater demands for service.

The Homeowner's Reconstruction Loan Program must provide financial assistance to all eligible homeowners. As shown in Table 3 this program generated deficits in the first years when the demand for no-interest loans was the greatest and will, from this point on, generate surpluses. The surpluses reflect: i) a drop-off in demand for new loans as more than half of the total number of building envelope repairs have been completed or are underway, and ii) a stronger housing market which increases the number of new homes constructed and subjected to the $750 levy. In addition, the strong real estate market has resulted in condo owners finding it easier to sell their repaired condos and repay their HPO no-interest loan. This in turn increases loan discount recoveries (HPO revenues) and reduces interest subsidy expense. Over a ten year period the program will generate sufficient surpluses to make payments on the loan from the Province and prepare for the retirement of the outstanding loan liabilities.

Risks and sensitivities generally concern interest rates and the economy. A sharp rise in interest rates or a downturn in the economy or housing market may have the following effects:

- reduce revenues from builder licensing fees reflecting lower housing starts
- increase expenditures for interest subsidy and expenses related to the financial assistance program, and
- lengthen the time it would take the HPO to repay the loan from the Province for the interest subsidy on no-interest loans to owners of leaky homes.

A joint service delivery model involving warranty providers and financial institutions is in place for the licensing and warranty insurance program as well as the financial assistance program. The involvement of private sector partners minimizes HPO administrative costs for these programs.

The research and education function is funded by builder licence fees. The HPO seeks to lever and pool additional funding from key stakeholders as a way of maximizing available funding for needed research and education projects. By working in partnership with other stakeholder organizations, the HPO will continue to lever additional funding for research and education purposes.

Table 1: Homeowner Protection Office Budget Forecast

	2002/2003 Forecast (000's)	2003/2004 Budget (000's)	2004/2005 Budget (000's)	2005/2006 Budget (000's)
REVENUE				
Builder license fees	$ 2,212	$ 2,525	$ 2,660	$ 2,660
Reconstruction fee	6,060	8,750	10,500	10,500
Provincial contributions for programs	4,811	5,165	5,059	5,281
Federal contribution for loan program	7,069	4,311	0	0
Interest	111	82	37	47
Loan discount recoveries *	2,060	2,060	2,067	2,067
Total Revenue	**22,323**	**22,893**	**20,323**	**20,555**
EXPENDITURES				
Grants to owners of leaky homes	10,817	7,853	5,247	5,156
Interest subsidy for no-interest loans	4,861	9,222	10,074	9,582
Salaries and wages	2,116	1,848	1,748	1,748
Loss provision on no-interest loans	953	308	0	0
Operating expense	1,534	1,587	1,643	1,643
Interest expense	665	1,049	1,009	932
Total Expenditures	**20,946**	**21,867**	**19,721**	**19,061**
Surplus (Deficit)	**$ 1,377**	**$ 1,026**	**$ 602**	**$ 1,494**

*The non-cash accounting entry required to amortize deferred payment loans appearing on the balance sheet of the HPO.

Table 2: Residential Builder Licensing and Construction Activity Forecast

The budget plan is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2002/2003	2003/2004	2004/2005	2005/2006
Number of new residential builder licences ($600 fee)	974	1,000	1,100	1,100
Number of residential builder licence renewals ($500 fee)	2,220	2,500	2,500	2,500
Number of new homes constructed and subject to $25 fee	20,573	27,000	30,000	30,000
Number of new homes constructed and subject to $750 levy	8,080	11,667	14,000	14,000

Table 3: Reconstruction Program

The budget plan is also based on the following forecast for the Reconstruction Program over the first 10 years of the program.

10 Year Forecast
($ Millions)

	99/00 Actual	00/01 Actual	01/02 Actual	02/03 Forecast	03/04 Forecast	04/05 Forecast	05/06 Forecast	06/07 Forecast	07/08 Forecast	08/09 Forecast	Total Forecast
Total Revenue	$ 0.9	$ 12.4	$ 13.9	$ 15.3	$ 15.2	$ 12.6	$ 12.6	$ 12.6	$ 12.6	$ 12.6	$ 120.7
Total Expenditures	($ 5.2)	($12.0)	($ 14.7)	($ 14.4)	($ 14.1)	($ 12.3)	($ 11.4)	($ 9.9)	($ 8.5)	($ 6.9)	($ 109.4)
Surplus (Deficit)	($ 4.3)	$ 0.4	($ 0.8)	$ 0.9	$ 1.1	$ 0.3	$ 1.2	$ 2.7	$ 4.2	$ 5.7	$ 11.4
Total Loans Outstanding	$ 27.9	$ 78.7	$ 130.2	$ 162.4	$ 181.1	$ 182.9	$ 171.0	$ 147.8	$ 124.6	$ 101.3	
Reconstruction Fund Balance	$ 1.4	$ 2.5	$ 4.1	$ 1.1	$ 1.1	$ 0.9	$ 1.0	$ 0.6	$ 0.8	$ 0.6	
Indemnified Third-party Debt	$ 22.4	$ 55.7	$ 88.6	$ 103.2	$ 106.1	$ 92.4	$ 76.6	$ 60.8	$ 45.0	$ 29.2	
Due to Province	$ 10.0	$ 15.0	$ 24.8	$ 25.7	$ 26.7	$ 25.7	$ 23.7	$ 19.7	$ 14.7	$ 7.7	